

Welcome to Objective's April Small & Mid-Cap Review

There is again a sense of uncertainty in the air. The optimism that infected equity markets during the final quarter of last year has given way to a more reflective period. Headline equity market indices in the western economies have gone nowhere fast during the first quarter of 2005 – although smaller companies have fared better.

The reasons for such reflection are not difficult to find. Nor are they surprising. Resumed strength in the oil price, increases in interest rates and a lacklustre results season from the corporate sector. Behind the scenes we detect some further causes for concern. GDP growth is not everywhere translating strongly into corporate profits nor into jobs. As we experienced in the early 1990s, a jobless recovery does little for income growth with obvious consequences in the end for consumption.

As we move into the second quarter of 2005 we appear, in our opinion, to move further out of what may be described recently as the "comfort zone" of zero real interest rates and a falling US-dollar. Little wonder that equity investors seem now to be sitting on the sidelines.

As we have suggested before the outlook is likely to remain uncertain while interest rates are rising in the USA and while GDP growth translates less convincingly into corporate profits. The result we believe will be a further period of defensive strategies being adopted by investors in western markets.

Elsewhere the defensive strategies are also likely to set into the Smaller Company sector. The period of strong outperformance against say the FTSE-100 index has more recently abated. While uncertainty persists so we expect that Smaller Companies are likely in general to trade sideways at best against the major indices. But as we highlight in the sector focus, there appear to be several opportunities for defensive sector rotation and yield enhancement here also.

Andy Hartwill
Research Director

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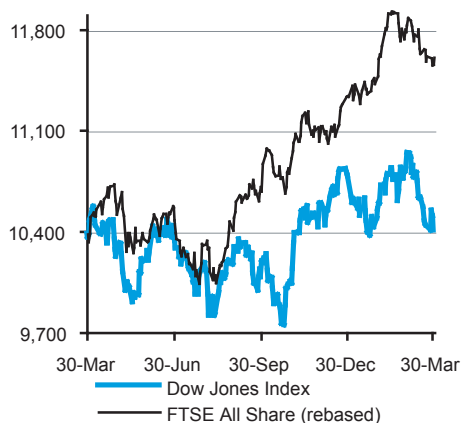
Corporate: www.ObjectiveCapital.com
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Month in Review

Going nowhere fast

2005 has so far been a troublesome year for investors in western equity markets. Rather like the Grand Old Duke of York in the nursery rhyme, they have been led up the hill and down again – at least once. As we write, the major indices have made no significant net progress so far this year and are well below the recent highs established in late 2004. As we stand on the threshold of the second quarter of 2005 we believe that the immediate outlook, at best, is for more of the same. Equity market investors are likely to be forced increasingly to focus on stock-picking in support of well-developed investment themes.

FTSE v Dow Jones (1-yr)



In our following section we explore one such theme in more detail. The search for income is likely we believe to intensify in a (western) world normalising after a period of short-term interest rates around the same level as inflation; the era of zero-real interest rates appears to be over for the time being.

In this section we set the scene for that theme as we concentrate on the outlook for global equity markets. “Don’t hold your breath” seems to be the best advice we can give to any equity investors who might be hoping for a sustained bull-rally. But we believe that there are opportunities for suitably risk-tolerant equity investors in smaller companies to beat the yield available on government debt.

The difficult progress of major western equity markets during the first calendar quarter of 2005 is not hard to fathom. Rising oil prices and interest rates coupled with lacklustre profits growth sets a demanding backdrop for even the most rampant growth bull. As we have argued before, by historic standards equities appear undervalued against bonds: the recent difference in (real) yields for the S&P is estimated to be around 3%. In 2000 the gap is estimated to have been over 4%. If the gap were to widen again to such levels the implication would be, on our calculations, an approximate doubling of share prices. Be still my beating heart!!

Of course that is unlikely to happen. The bull market of end ‘99/ early 2000 was characterised by two features – apart from the Klondike rush into “dot-coms”. The first was the argument that long-term growth rates (trend growth) in the USA had risen and that the risk (premium) for holding equities had fallen. Indeed some commentators at the time argued that the risk premium should be negative i.e., that equities were a “safer” asset class than sovereign bonds!!

At least one of those assumptions proved false. The obvious culprit is the risk premium. The tragic events of “9/11” and subsequent aftershocks (including Gulf War 2) appear to have raised the demanded risk premium for holding equities. No big surprise in that conclusion and, therein, in our opinion, the key to any sustained equity rally. Anything which reduces the perceived risk should, almost by definition, prompt a rally in more “risky” assets such as equities.

About Objective Capital:

Objective is a leading UK provider of objective corporate research.

We offer investors two levels of insight – a regular survey of the complete small and mid-cap segment, highlighting those stocks where attention should be focused, and our detailed institutional-quality, sponsored research coverage. As always, our research doesn’t offer trading recommendations or advice but an objective up-to-date assessment of the prospects, and risks, of the companies we cover.

While the companies we cover sponsor our research, it is always written on behalf of our readers. It is of the essence of our research that it be **independent** — that is opinions, estimates and valuations be solely those of Objective’s analyst; **objective** — that is based upon verifiable data; and **transparent** — that is based upon explicit assumptions.

Our research complies with all FSA recommendations as may arise out of CP172 and CP176, i.e., that it be independent of any broking or trading interests; and CP205, i.e., that it comply with standards for objectivity.

But, in our opinion, a reduction in the risk premium is no longer sufficient. Growth is not all that it once was held up to be. Alan Greenspan hinted at what we suspect to be the current situation as far back as December 1996 in his now famous “irrational exuberance” speech. At the time the DJIA stood around 6,800. After a brief initial fall it recovered. Despite considerable volatility it has made net positive progress from that date until now. But the rate of change has been, on average, below 6% a year – approximately in line with nominal GDP. No big re-rating of equities, no Goldilocks inspired hike in profit margins, no replacement of bonds as the benchmark of risk-free returns.

The situation today continues to bear out his warning: there is still no need for irrational exuberance. Profit margins are unexciting across the US economy. As measured by their (pre-tax) contribution to GDP they have recovered from the 2002 lows of around 6% (source: *Monetary Policy Report to Congress; February 2005*) but, at less than 11% (and recently revised lower), they languish well below peak levels of around 14%. If that was the best that could be achieved in an environment of zero real interest rates and a falling dollar then, as those two features reverse direction (as we expect), then we fear that the corporate sector is going to have to run increasingly hard simply to stand still on margins.

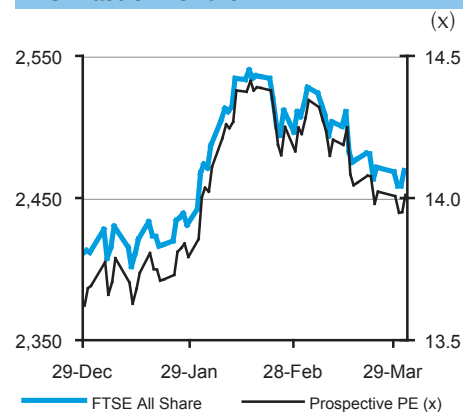
There is however a glimmer of light, as far as we can see. The interest rate cycle in the USA may peak at lower levels than currently feared. The consensus is likely to be right to expect a further hike at the May FOMC meeting and, more significantly, that the accompanying statement will drop the reference to a “measured” pace of increases. Input prices have been rising, largely due to oil, and retail sales growth has recovered recently to around 8%.

But the ISM manufacturing index has been declining since the end of 2003, industrial production growth has fallen to 3.5% (the peak was 8% at the end of 1997) and capacity utilisation is still below 80%, compared to a peak of around 84% in 1995/ 97. None of those suggests any imminent surge in inflation. However, we fear that equity market investors will have to endure an anxious few months before such a view becomes more clear.

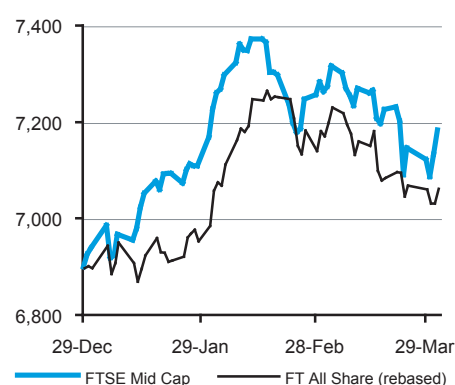
How then should investors position their portfolios? The short answer, in our opinion, is through a continuing combination of defensive strategies and, within the equity component, stock selection based upon investment themes appropriate for the likely conditions in the months ahead.

One such theme for stock selection is likely to be the continuing search for income. Not only is that a defensive strategy in itself but it may also highlight stocks where perceived risk is unreasonably high. Such stocks have the potential to outperform when views on growth and risk become more settled. This theme we develop further in our following section.

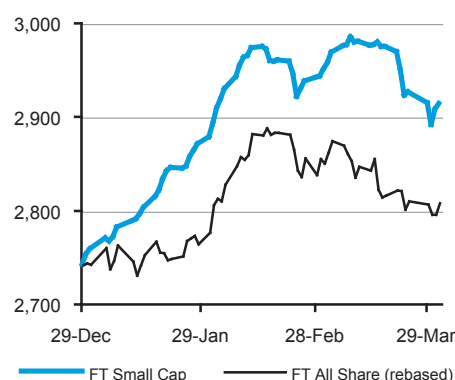
FTSE last 3 months



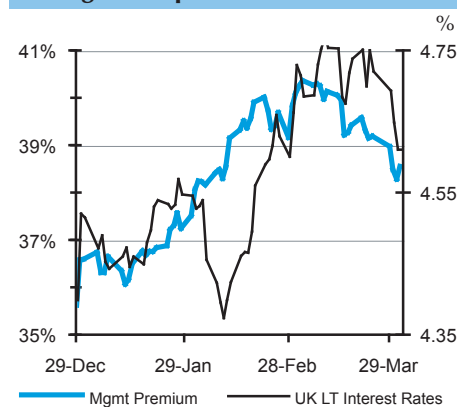
FT Mid Cap last 3 months



FT Small Cap last 3 months

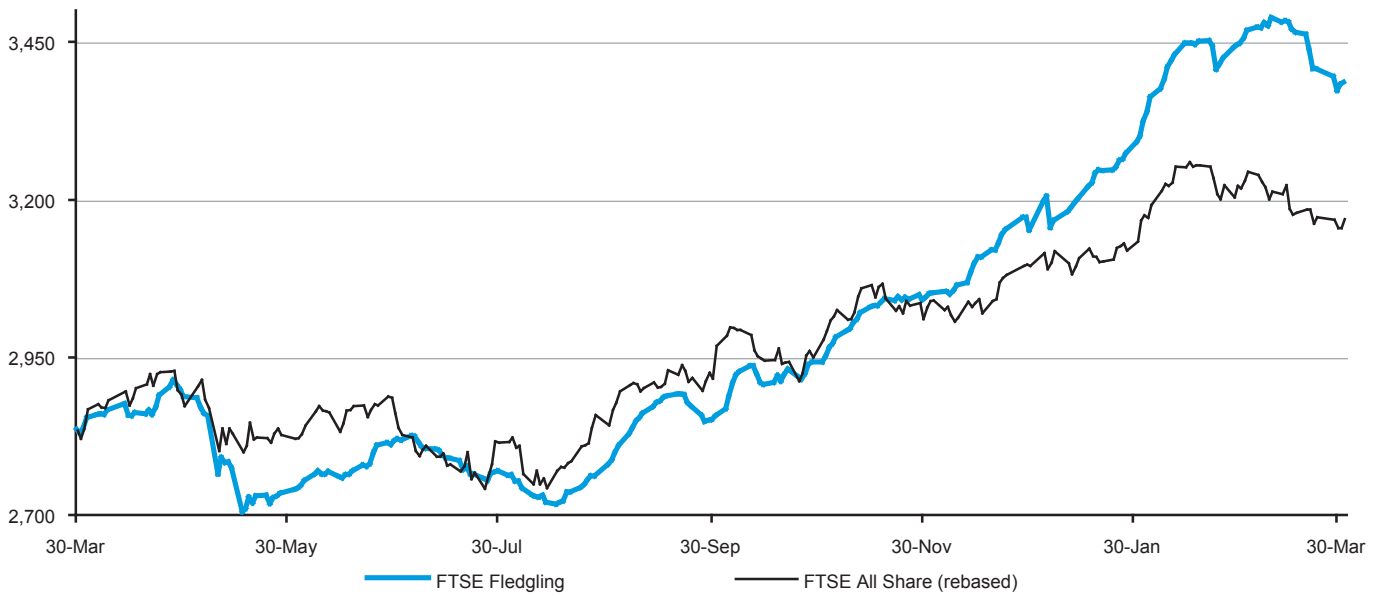


Management premium in the FTSE¹

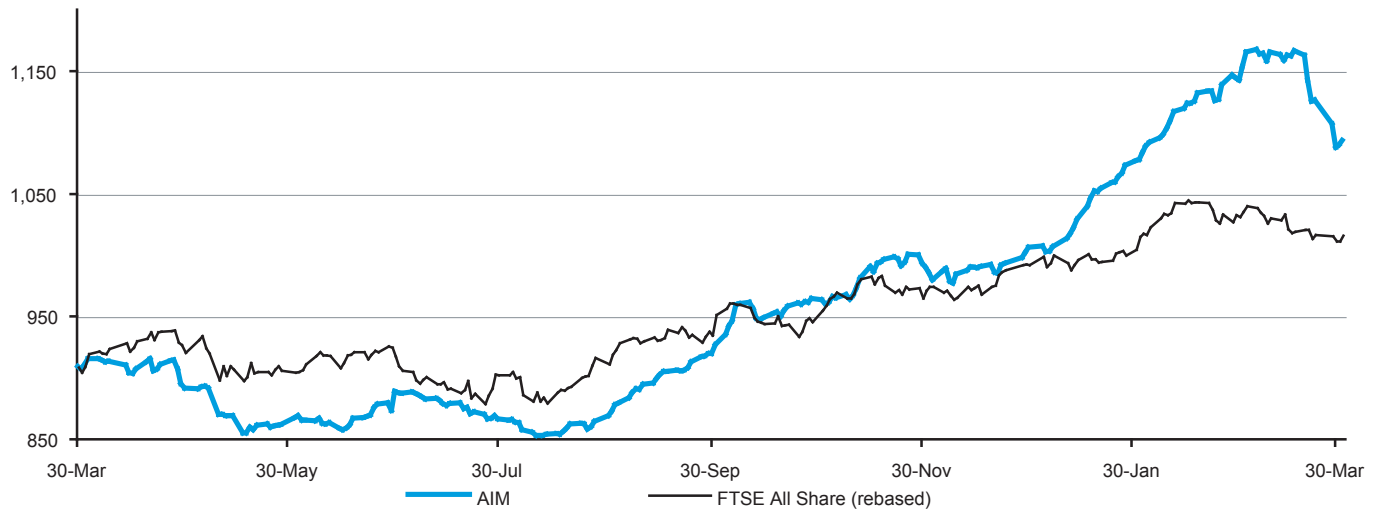


¹ management premium is the % of the FTSE that the market is paying for the “value” management is expected to generate. See page 11 for details.

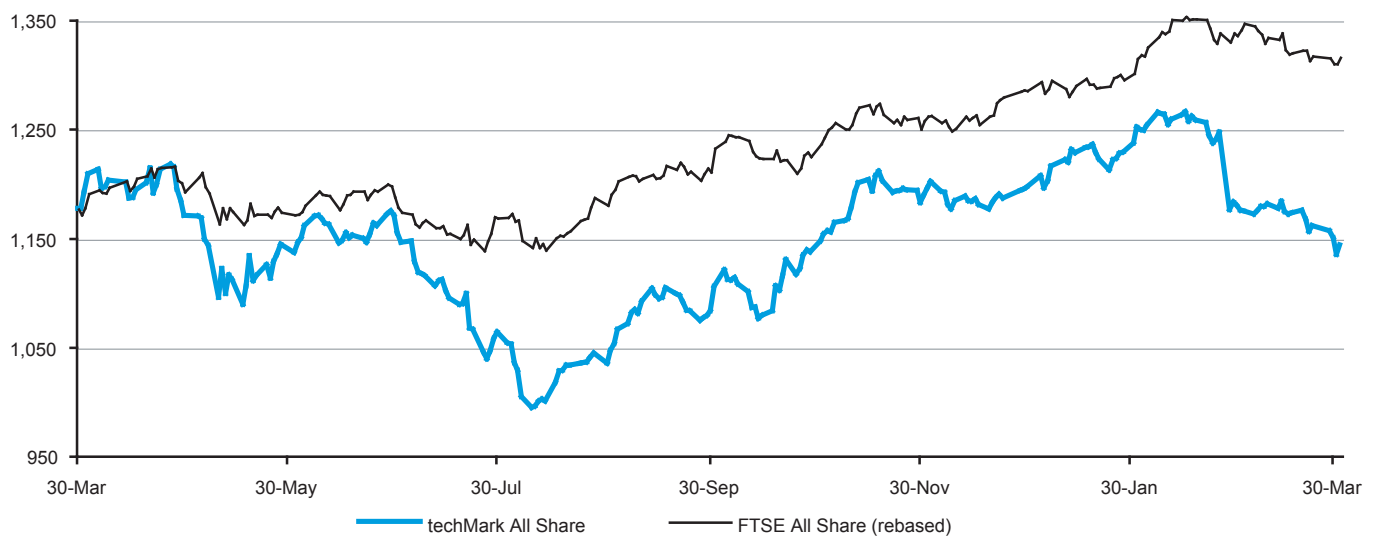
FTSE Fledging Index v. FTSE All Shares (rebased), 12-mth



AIM Index v. FTSE All Shares (rebased), 12-mth



techMark Index v. FTSE All Shares (rebased), 12-mth



Recently announced flotations

Company	Market	Type	Mkt Cap/ Amnt Raise	Issue Date	Description
Alba Mineral Resources	Aim	Placing	£1.1m / £1.1m	4-Apr-05	Mineral exploration
Alexander Mining	Aim	Placing	TBC / £20.0m	4-Apr-05	Mining
European Business Jets	Aim	Placing	TBC / TBC	4-Apr-05	Private business jets
Hardide	Aim	Placing	£13.0m / £1.8m	4-Apr-05	Super-hard coatings
Talarius	Aim	Placing	£5.5m / £5.5m	4-Apr-05	High street gambling
Telit Communications	Aim	Placing	£68.0m / £20.0m	4-Apr-05	Mobile telecoms devices
Landore Resources	Aim	Placing	TBC / £2.0m	6-Apr-05	Mineral exploration
Omega Underwriting	Aim	Placing	£20.0m / £20.0m	6-Apr-05	Lloyd's managing agency
Concateno	Aim	Placing	TBC / £5.0m	7-Apr-05	Water businesses
Gulfsands Petroleum	Aim	Placing	TBC / £30.0m	7-Apr-05	Oil and gas exploration
Leadcom Integrated Solutions	Aim	Placing	£30.0m / £12.0m	7-Apr-05	Telecoms equipment
Gravity Diamonds	Aim	Introduction	£20.6m / n/a	8-Apr-05	Diamond exploration
Rambler Metals and Mining	Aim	Placing	TBC / £8.0m	8-Apr-05	Mining projects
UTEK Corporation	Aim	Placing	TBC / £7.5m	11-Apr-05	Technology transfer group
Vindon Healthcare	Aim	Placing	£7.9m / £0.3m	11-Apr-05	Environmental control products
AM2	Aim	Placing	£15.0m / £15.0m	TBC	Investment company
Barracuda	TBA		£300.0m / TBC	TBC	Pubs and bars
BCM Capital	Aim	Introduction	TBC / n/a	TBC	Construction
Carlton Clubs	Aim		£40.0m / TBC	TBC	Bingo club owner
Churchill Mining	Aim	Placing	£2.2m / £1.0m	TBC	Mining and exploration projects
Eyebright	Aim	Placing	£11.5m / £5.0m	TBC	Elective day surgery
Intandem Films	Aim	Placing	£4.3m / £1.3m	TBC	Movie production
IVT Wireless Technology	Aim	Placing	TBC / £2.0m	TBC	Bluetooth products
Miras Imaging	Aim	Public offer	£6.4m / £1.0m	TBC	Medical devices specialist
OneTV	Ofex	Public offer	£3.8m / £1.0m	TBC	Digital TV shopping channel
Petrosearch International	Aim	Introduction	TBC / n/a	TBC	Resource sector investments
PHSC	Aim	Placing	£4.0m / £0.1m	TBC	Health and safety training
Planet Conservatories	Aim	Placing	£70.0m / £10.0m	TBC	Bespoke conservatories
Plasma Warehouse Group	Aim	Public offer	£2.0m / TBC	TBC	Specialist Audio Visual Systems
Radiancy	Main	Placing	£65.0m / £30.0m	TBC	Cosmetic treatment company
RDF Media	Aim	Placing	£40.0m / TBC	TBC	TV production company
TNX Television	Aim	Placing	£50.0m / £15.0m	TBC	Commuter train television
YouGov	Aim	Placing	£15.0m / £3.0m	TBC	Online polling and market research

Sector in Focus

Bond busters

Smaller companies and income are not usually associated with each other. Most smaller companies are either in start-up mode or aiming at high growth. Neither type is likely to throw off cash to shareholders.

But there are some exceptions: companies whose cash flows are more established and companies who are the fallen stars of yesterday. Among those we believe that there are opportunities for risk-tolerant investors in an environment of rising interest rates. Such companies we refer to loosely as “the bond busters”.

First some background. The hunt for income does not begin and end with identifying above average yield. That is of course the immediate attraction for many investors. But high yield may also be an indicator of potential above-average capital growth in the future. Such a company may therefore provide high income as part of a short-term defensive strategy and capital growth when strategies become more aggressive. Hence our interest.

The theory behind the assertion centres on the risk premium – the additional return demanded for holding a risky asset. The usual measure of a so-called “risk-free” investment is a government bond from one of the more mature economies where the risk of sovereign default is taken to be zero.

The relationship between such bonds and equities may be described by the following equation (no more after this, we promise!)

$$b - y = g - z$$

where

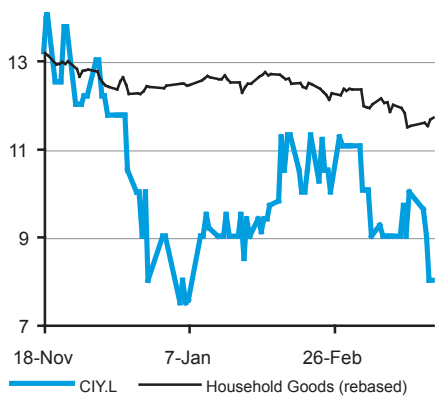
b is the bond yield (typically of 10-year duration)

y is the dividend yield

g is the assumed long-term growth rate (typically GDP)

z is the risk premium

CIY v. Household Goods (rebased)



Historically dividend yield was greater than bond yield. Effectively investors in equities were not prepared to take on trust the concept of long-term growth. After all, way back in the 17th century, ships sank and companies went bust. The same of course happens today but with much less regularity. As confidence grew in the longevity of companies so gradually an increasingly positive number was assigned to “ g ” in the equation above so that, in the end, dividend yield fell below that of sovereign debt.

Of course, even supposedly efficient markets can get it wrong. In 1999, at the height of the “dot com” bubble with talk of Goldilocks and the “new paradigm” the only way to justify increasingly lofty equity valuations (small dividend yields) was to invoke the concept that the risk premium had gone negative. Effectively the investment community was saying that equities had replaced bonds as the “risk-

Select stocks from the FTSE Small Cap universe

Name	EPIC	Sector	Recent price (p)	Mkt Cap (£m)	Dividend cover (x)	Prosp yld (%)
Collins and Hayes Group PLC	CIY	Hshld goods/ textiles	9.0	2.3	3.0	13.7
Invox PLC	INX	Telecom Services	226.5	36.4	1.4	10.2
Honeycombe Leisure PLC	HCL	Leisure/ Ent & Hotels	44.0	13.8	1.4	8.1
THB Group PLC	THB	Insurance	66.5	17.9	2.9	7.8
Wensum Company (The) PLC	WNS	Hshld goods/ textiles	106.5	8.3	1.2	5.8
Chaucer Holdings	CHU	Insurance	53.0	155.0	3.3	5.7
C.I.Traders Ltd	CI	Leisure/ Ent & Hotels	65.5	165.2	1.7	5.4
Churchill China PLC	CHH	Hshld goods/ textiles	225.5	25.7	1.9	5.0
Personal Group Holdings PLC	PGH	Insurance	218.5	66.8	1.6	5.0
Fiske PLC	FKE	Speciality Finance	81.5	6.8	0.9	4.9
Universe Group PLC	UNG	Support Services	18.0	11.7	1.9	4.6
Solid State Supplies PLC	SSP	Support Services	65.5	4.0	1.3	4.6

free” asset class. As with all such nonsense it ended in tears and a three year bear market in equities.

But the market can sometimes get it wrong in the other direction. If a company is under-researched, little known or has fallen from grace, it may be priced so that the dividend yield is high, occasionally above even that of the local bond yield. It is those companies in which we find potential value. The implication is that the risk premium is high, above average and sometimes above the implied long-term growth rate. In other words, that all future growth is risk.

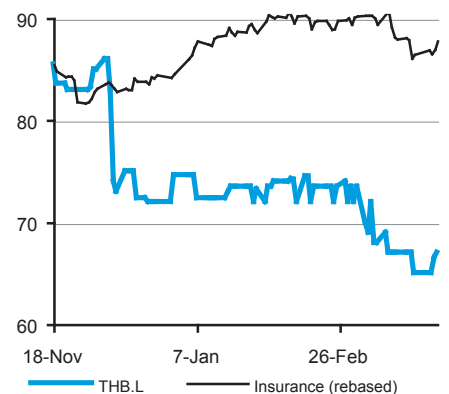
Of course the market may be right in its judgement. A fallen star has undoubtedly given cause in its past for a negative judgement by shareholders. High yield may simply be an indication of the market’s judgement that the dividend will have to be cut. But there may also be companies where the market’s harsh judgement is no longer warranted – if ever it was. It is those on which we wish to focus this month.

The above table shows a selection of AIM stocks which appear to fulfil the criteria we set of dividend yield being above gilt yield and that the dividend cover is between the average for the FTSE Small Cap of 0.3x and that of the FTSE-100 of around 2.1x.

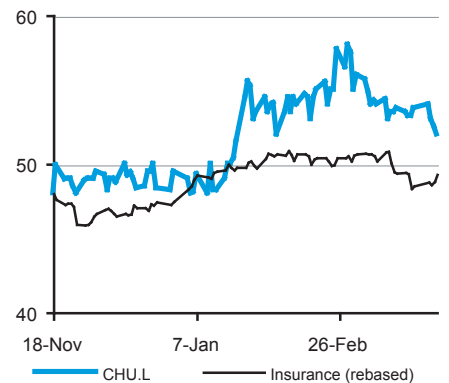
The table is by no means exhaustive; nor does it imply any recommendation. Rather, it is intended to serve as an indicator of the potential choice that exists, even among smaller companies. These are available to investors seeking an income alternative to gilts in the short term with the possibility of capital gains in the longer term as conditions change, allowing a relaxation in what maybe regarded today as an unnecessarily high risk premium. The range of industry sectors is eclectic although typically defensive sectors, such as Insurance, are well represented.

We believe that this approach to stock selection can help to guide investors in uncertain times. In our opinion it provides a first filter by which to narrow down an apparently bewildering choice of companies in the search for the fabled “bond busters”.

THB v. Insurance (rebased)



CHU v. Insurance (rebased)



Company Survey

From the Model

The Objective Capital model works to identify possible examples of mispriced stocks at both ends of the scale. We try to identify: stocks that have been unduly beaten down by mildly adverse corporate developments; those whose price action may not have fully reflected positive developments; and those whose price may be well ahead of the performance justified by good news, or slow to discount the bad.

In this section of the company comments we attempt to isolate those stocks that fall towards the extreme ends of the distribution of the model's results. We then look in more detail – in a formalised way – at the reasons for their being priced as they are. Considerations for selecting the companies to highlight are standard valuation criteria including PSR, prospective PE relative to earnings growth, ROE, price to cash flow, prospective yield and margins.

We also particularly filter stocks for analyst coverage, preferring those stocks that rank as lower risk and where analyst coverage is thin or non-existent, on the basis that it is here that the scope for mispricing is greatest.

We then select the best four stocks on these criteria as a distillation of the model's results for this month. Where appropriate we provide information on broker forecasts and recommendations, using consensus numbers and recommendations where possible. We leave readers to judge how appropriate these recommendations may be.

How do we “watch” the whole market?

In such a large and diverse group of stocks as the small and mid-cap segment, every investor needs a way of directing their research effort. Because the key to any company is the quality of its management, we focus on an objective assessment of what the market currently pays for the management's ability and scope to improve the value of their company.

Using consensus estimates we can approximate what investors believe they are paying for management's “value add”. Changes in this level tell us when the market's view on the management or its situation has changed – and on which company's our attention needs to be focused.

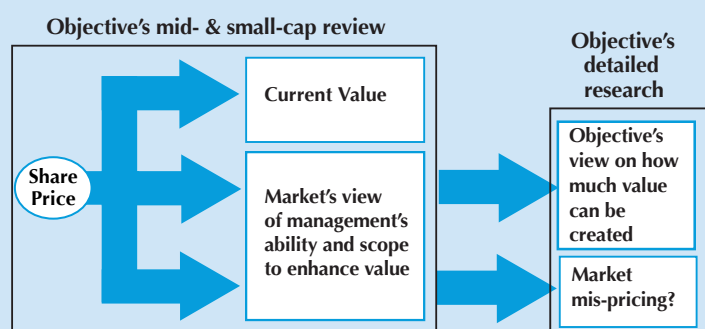
Our detailed company research answers the question of whether the change is justified or if what the market currently pays misses the real value management can add.

Not a recommendation – but a relative pricing tool

We aim to help our readers navigate the mid- and small-cap segment. Our screening tool is based on the same rigorous framework of risk and return that our detailed objective research uses.

When tracked over time, this model allows us to derive the market's expectation of the increase in value of business on a risk and interest rate adjusted basis. At a glance analysts or investors can see which stocks or sectors are relatively cheap or expensive. We provide the results of our screening tool as a service to our readers.

For more information on the detailed methodology of our screening tool or the interpretation of its results please contact us at +44 (0)870 080 2965.



What we are measuring ...

Management's Ability and Scope:

- to extract lasting improvements in asset and operating efficiency
- to enhance value through synergies from acquisitions, etc
- to enhance value through barriers to entry
- changes in the environment (e.g., de-regulation)
- the value of timing differences between capex and depreciation, tax and other mis-matches

This Month's Companies to Watch

Name (EPIC): Wm Morrison Supermarkets (MRW)

Sector: Food and drug retailers

Basic business: Operation of more than 400 supermarkets throughout much of the UK. Morrisons is now one of the four major supermarket groups in the UK along with Tesco and Sainsbury and Asda, with market share of around 15%. It is currently digesting the acquisition of the former Safeway stores acquired in March last year after a protracted bid battle. After disposals of smaller stores and those required because of competition considerations, this effectively doubled its size at a relatively cheap price.

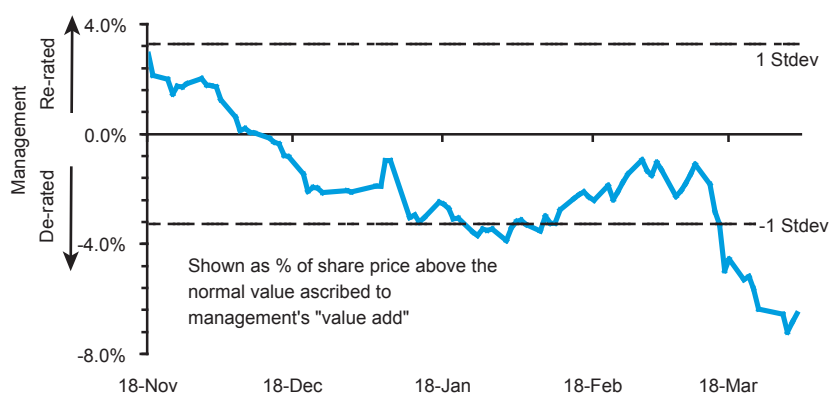
Reason for potential mispricing: *Overreaction to profit warning and management changes. Jaundiced press comment.* Chairman Ken Morrison rarely gets cut much slack in the City, partly because Morrison has little time for analysts and partly because analysts have some difficulty appreciating the subtleties of the group's trading format, which works extremely well north of Watford, but can be seen as relatively unsophisticated by SE standards. One considerable problem, however, is Morrison's disregard of normal corporate governance conventions, which has made the group an inviting target when things go wrong.

There is little doubt that Morrison is struggling to integrate some Safeway stores, but the sniffy and patronising nature of the adverse press comment about Morrison's retailing skills seems wide of the mark.

Morrisons has suffered a specific problem related to the accounting treatment of rebates from Safeway's former suppliers. These are not in any sense a black hole. It appears to be a one-off change and the finance director has carried the can for this. From the standpoint of trading, it should be remembered that Morrisons had successfully opened stores in the South prior to the Safeway move. Getting the trading format right is therefore simply a matter, as all retailing is, of detail.

Even given the fact that the recent profit warning is the second in a series, the 13% drop in the price in the past month seems to be overdoing it.

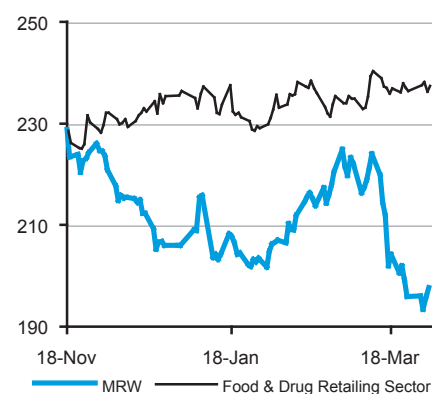
Portion of MRW share price attributed to "management value add"



MRW PE & PE relative



MRW v. Food & Drug Retail (rebased)



Value criteria: Profit forecasts have been cut back. Most analysts following the stock now expect profits in 2006 to reach something above £400m. In a well-publicised report house broker ABN Amro has cut its forecast from £550m to £400m, but was forecasting somewhat higher than the consensus prior to this news. Normalised eps of around 10p a share suggests a multiple of 19 times. Historic return on capital is around 21% and the group continues to generate strong cash flow at a rate of about 20p per share.

Analyst coverage: Some 15 analysts cover the company.

More information: www.moreasons.co.uk

Next results: Preliminary: mid-April

Name (EPIC): **Biocompatibles International (BII)**

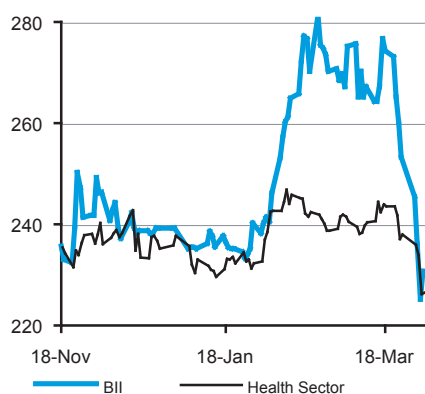
Sector: Health

Basic business: Development and manufacture of coatings for use in the production of medical devices. In particular the company has developed technology that uses tissue compatible implants for purposes such as drug delivery and blocking blood flow, used particularly in liver cancer treatment.

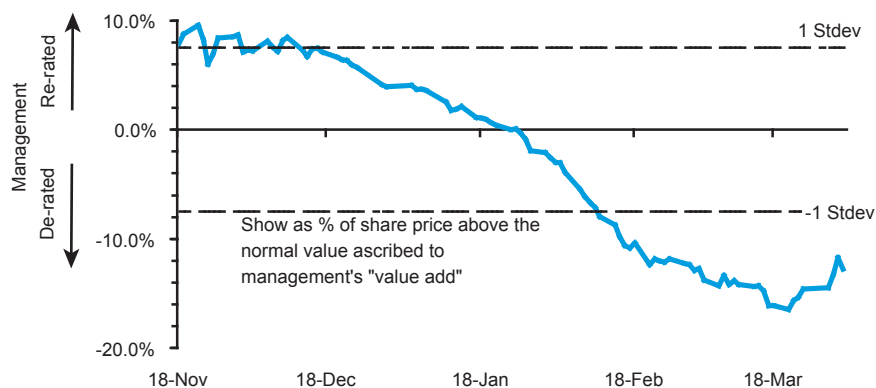
Reason for potential mispricing: *Apparent market disappointment over slower than expected resolution of some outstanding legal issues.* Recent market action has been puzzling. The shares have dropped some 12% in the past month despite results that were slightly better than expectations. Turnover rose 23% and pre-tax losses before exceptionals and goodwill amortisation emerged at £6.9m (market expectations had been losses of around £7m).

The group reported promising data from clinical trials evaluating a drug delivery implant product. Biocompatibles also acquired the German company CellMed for €22m in cash and shares. It ended the year with net cash of £45m, some £6m more than expected, and expects a cash outflow of around £10m in the current year. Pre-tax losses are expected to narrow slightly in 2005.

BII v. Health sector (rebased)



Portion of BII share price attributed to "management value add"



The company also expects to return around 29p per share to shareholders following the release of funds from court appointed escrow following a settlement of outstanding litigation with the US company Isostent. Biocompatibles was a co-defendant in the case because Abbott Laboratories had bought one of its subsidiaries, which then became involved with two other defendants in a lawsuit brought by Isostent. Biocompatibles had to deposit some £17.6m in escrow to indemnify Abbott against possible damages claims.

Now a settlement has been reached in respect of Biocompatibles former subsidiary's involvement in the case, the company has applied to the court to release the funds. The case itself resulted in a defeat for the plaintiff Isostent, which is appealing, a process likely to take six months to a year to complete. This should not affect the settlement that Biocompatibles reached separately with Isostent. Biocompatibles intends to apply to have the money released in early May. Since June 1992, Biocompatibles has returned some £111m to shareholders.

Value criteria: Of limited relevance given the company's ongoing losses, but net cash current represents around 50% of market capitalisation.

Analyst coverage: Four analysts cover the stock, including house broker Nomura.

More information: www.biocompatibles.com

Next results: Interim – early September

Name (EPIC): Delta (DLTA)

Sector: Chemicals

Basic business: Speciality chemicals and industrial supplies. The company is involved in manganese, galvanising and industrial supplies. The manganese business is primarily through two companies, one of which supplies electrolytic manganese dioxide for use in dry cell batteries, the other of which is a supplier of the metal itself to steel and aluminium producers. The galvanising business provides hot dip galvanising services and fabricates galvanised products in the USA, Asia Pacific and Australia. Industrial supplies are to mining and construction industries in Australia and South Africa.

Reason for potential mispricing: *Possible overreaction to sudden death of chairman and major shareholder.* Delta produced good results for 2004, with ongoing profits before exceptionals and goodwill amortisation up from £27.5m to £30.2m and cash flow per share growing strongly from £27.6m to £37.4m. Earnings on this basis rose from 7p to 10.6p. Book value is 99p a share. The company says that progress was achieved despite significant challenges in some markets. Galvanising and industrial supplies did well; manganese was hit by reduced volumes and adverse currency movements. 'Further progress' is expected in 2005.

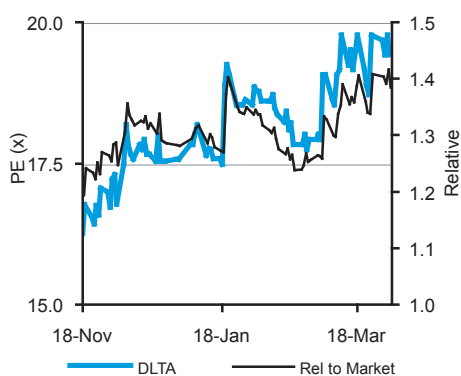
More intriguing, however, is the impact of the recent murder of the group's chairman Edouard Stern, a well known French financier, who was found dead in his Geneva apartment in March. The killing appears to be a crime of passion, and Mr Stern's former lover – with whom he was engaged in legal proceedings at the time of his death - has been arrested for his murder.

From an investment standpoint the relevant factor to focus on is the status of Mr Stern 26% holding in Delta. Without knowledge of Mr Stern's will, it is impossible to say where this holding might end up, although the best conclusion is that his heirs, possibly his wife and children or a family trust, are unlikely to want to retain it. The holding is, however, believed to be partly held through companies in which Mr Stern had a controlling, but not 100%, interest.

With the recent improvement in Delta's trading, however, it is possible this holding could be placed with existing shareholders. The recent price action may be due in part to hopes that Mr Stern's death may precipitate a bid for the company. Four large institutional shareholders own 24% of the company: it is possible they may seek to acquire the stake to give them control. Would a bid for the company result from this? It is possible. Delta's valuation is relatively modest.

Value criteria: The shares currently stand on an historic PER of around 10.5 times. Market value is around 50% of sales and around 4.5 times operating cash flow. After tax return on equity is a respectable 10.7%.

DLTA PE & PE relative

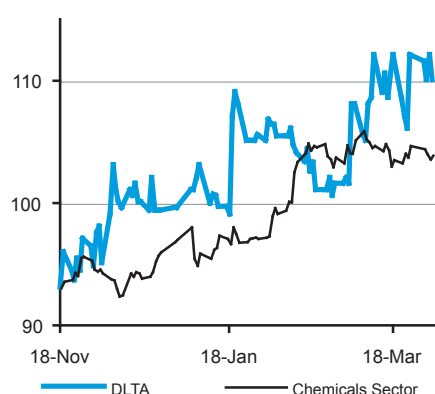


Analyst coverage: The company is covered by one analyst, at Arbutnot Securities, the corporate broker. Arbutnot replaced Cazenove and CSFB in January 2005. Arbutnot currently carries no forecast for the group. Former broker Cazenove expects profits of £34m (earnings per share of 11p) this coming year.

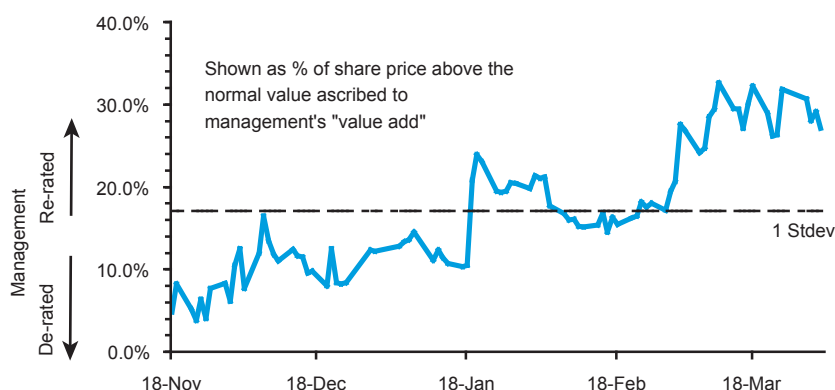
More information: www.deltapl.com

Next results: Interim – early September

DLTA v. Chemicals sector (rebased)



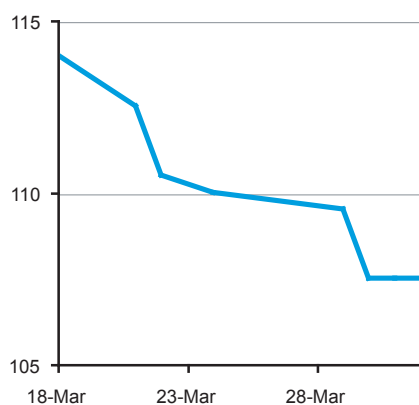
Portion of DLTA share price attributed to "management value add"



Newcomer of the Month

This section analyses a recently listed company from a more qualitative standpoint. Futures issues of Objective's Small & Mid-Cap Review will comment periodically on the progress of these companies

SHDP - price since listing



Price (p)	107.5
Quote	AIM
Ticker	SHDP
Hi-Lo since listing (p)	114 - 107
Shares issued (m)	50.0
Market Cap'n (£m)	53.75
Issue price (p)	88
Net Proceeds (£m)	22.0
Website	www.shedproductions.com

Shed Productions (SHDP)

- Company is an independent TV programme maker
- Has created hit shows like 'Footballers' Wives'
- Legislation has increased addressable market size
- Key part of business model is retention and exploitation of IP assets.
- Cash flow dominated by aggressive depreciation policy.
- High return on equity.

Listed at 88p, Shed is currently trading at 107p after a successful debut. Advisers were Ingenious Corporate Finance, with Bridgewell the nominated adviser and broker. The company is an independent TV production company, specialising in contemporary drama. Three former Granada TV executives established it in 1998.

Programmes have included 'Bad Girls', commissioned by ITV in summer 1998, and more recently 'Footballers' Wives', which has attracted an audience of 6m per week. Together the two programmes have run to ten series and a total of 119 hours of programming.

Further programmes are said to be in the pipeline, including a new primetime ITV drama 'Bombshell', and a documentary series based around the 'Footballers' Wives' theme.

The company is in demand by broadcasters because of a track record of producing hit shows with an appeal to younger audiences. It also offers broadcasters fixed price contracts, rather than the traditional 'cost plus' approach favoured by the industry. Although the company has hitherto worked exclusively for ITV, recent legislative changes have increased the size of the addressable market considerably, and Shed expects to be able to take advantage of this.

Several new projects are in active development. The company makes a point of retaining the IP in its productions, and actively exploits this through international sales, DVD sales, merchandising and the like.

As a result of this success the company's turnover has grown rapidly since inception, averaging around 24% compound. Turnover is currently around £15m and pre-tax profits £1.9m in the year to 31 August 2004. Growth has flattened out in the last couple of years. The company has a liquid balance sheet with cash of £2.5m out of shareholders funds of £6.5m. After tax return on equity is 28.9% (all figures prior to the impact of the share placing and cash raised therefrom).

Operating cash flow is high because the company writes down the value of existing programme assets very aggressively over their immediate expected life, although there is compensating heavy investment in new programme assets each year. As the company matures and creates a bigger library of back programmes, this equation should move in the company's favour, allow net cash generation to increase.

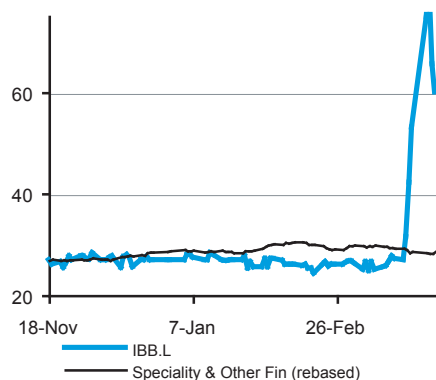
Future strategy appears to be more of the same, but with the additional dimension of now being able to market programmes to BBC and Channels Four and Five while being able to retain its IP rights.

Expectations are that profits could rise to £4.6m this year on doubled turnover.

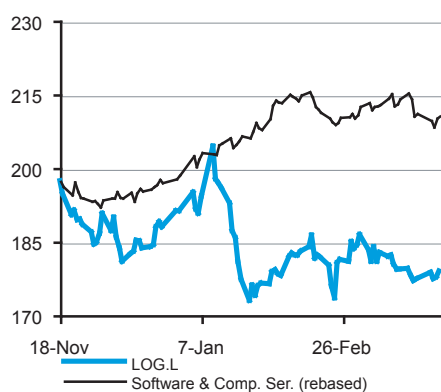
Companies in the News

The following comments relate to other companies highlighted by the model, and those that we have highlighted in previous issues, where news has emerged in the past month or so.

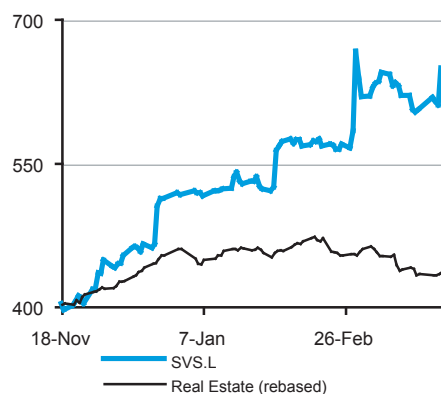
IBB v. Specialty & Other Fin. (rebased)



LOG v. Softw. & Comp Serv. (rebased)



SVS v. Real Estate (rebased)



Islamic Bank of Britain (IBB)

Britain's first totally Islamic bank saw its shares more than double after the Budget removed the stamp duty penalty for Islamic mortgage products. The rise in share price was also influenced by the introduction of a new direct banking service which means that for the first time Britain's 1.8m Muslims have access to banking facilities in accordance with Islamic Sharia'a principles wherever they live in the UK.

The bank has amended its annual reporting date to the end of December to be in line with most of the financial services industry in the UK. Final results for the five month period ended 31 December 2004 showed a loss of £3.11m compared with a loss of £2.69m for the year ended July 31st 2004, due to start up costs. Revenues (described by Islamic convention as profit shares) showed an increase to £683,989 compared with £491,211 for the previous year.

More information: www.islamic-bank.com

LogicaCMG (LOG)

Recent results showed a pre-tax profit of £42.4m last year, compared with a merger related loss of £33m the previous year. Revenues were £1.658bn, down 2.8% from 2003.

Public sector operations make up 27% of revenues and although the company expects a cut back in government spending on IT after the election, Logica is part of a consortium that has been selected for a £2.3bn computer contract for the Ministry of Defence, for which it is likely to receive £100m over several years.

The French and German businesses continue to underperform but the demand for outsourcing, which is based in India, continues to grow and now represents 23% of sales, a 20% increase on last year.

More information: www.logicacmg.com

Savills (SVS)

2004 was a record year for Savills, the international property advisor, helped by a UK commercial property boom. Final results showed pre-tax profit of £50.2m against £34.1m for 2003. Turnover was up 9% at £328m compared with \$301.7m for the previous year and operating profit was up 10% at £39m compared to £35.3m in 2003. Savills' staff members share in the good fortune, with a £70m bonus pool to be distributed among the group's 2,500 employees. Shareholders receive a special dividend payment of 20.0 pence.

The company's CEO, Aubrey Adams, said that the company did not expect a property slowdown this year to hit Savills, although he commented that returns for property investors could see a decline.

More information: www.fpdsavills.co.uk

Cookson Group (CKSN)

Cookson's full year results were slightly better than expected but the company said that the outlook for its core business is mixed.

Pre-tax profit was £93.1m compared to £32.6m for the previous year. Pre-tax loss was £18.7m against £187.3m in 2003. Sales from continuing operations rose 5% to £1.70bn compared to £1.62bn a year earlier.

Electronics and ceramics performed well during the year but a relatively weak retail trading environment affected the precious metals arm which is tied in with the jewellery market.

The company, which is still recovering from a disastrous foray into the electronic equipment business a few years back, intends to pay down debts by raising another £100m from disposals.

More information: www.cooksongroup.co.uk

Phytopharm (PYM)

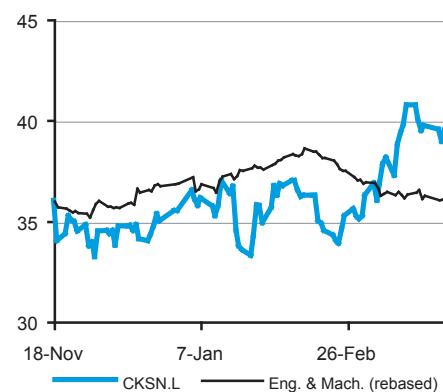
The Japanese pharma company Yamanouchi Corporation recently terminated its licensing agreement with the biotech company, causing a sharp drop in the share price. Yamanouchi was involved with Cogane, the company's product for the treatment of Alzheimer's disease. The company backed out of the agreement following a portfolio review after its merger with Fujisawa Pharmaceutical Company.

Fortunately for Phytopharm the efficacy of the drug itself has not been brought into question. Safety data on the first sixty patients treated met the accepted criteria and Phytopharm has commenced the next phase of trials. Preliminary results are expected in the fourth quarter of 2005.

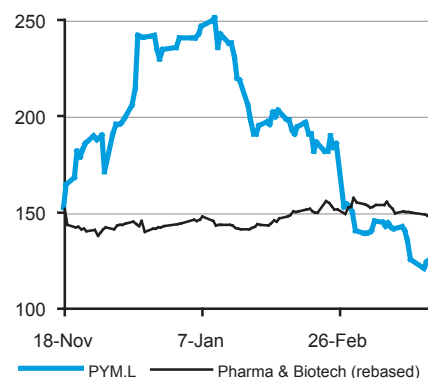
Phytopharm was obliged to abandon a £24m fund raising as a result of the Yamanouchi action, but still has considerable cash balances, did receive a £4m milestone payment from the Japanese and expects to be able to find another partner to license the drug globally in due course. It recently licensed an appetite suppressant product for obesity to Unilever.

More information: www.phytopharm.com

CKSN v. Eng. & Machinery (rebased)



PYM v. Pharma & Biotech. (rebased)



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Recent flotation data

Company	Market	Type	Mkt Cap/Amnt Raised	Issue Date
Blue Star Mobile	Aim	Introduction	TBC / n/a	1-Apr-05
Vividas	Aim	Placing	£18.6m / £5.5m	31-Mar-05
Sweet China	Aim	Placing	£3.5m / £0.7m	31-Mar-05
Red Leopard	Aim	Introduction	£1.9m / n/a	31-Mar-05
Proximagen Neuroscience	Aim	Placing	£29.7m / £13.5m	31-Mar-05
Nanotech Energy	Aim	Placing	£1.2m / £0.4m	31-Mar-05
HHK	Aim	Introduction	£0.3m / n/a	31-Mar-05
Fonebak	Aim	Placing	£24.0m / £5.0m	31-Mar-05
Archimedia Ventures	Aim	Introduction	TBC / n/a	31-Mar-05
9999	Aim	Placing	£0.5m / £0.3m	31-Mar-05
Taurus (Storage)	Aim	Placing	TBC / TBC	30-Mar-05
Sagittarius (Prof. Services)	Aim	Introduction	TBC / n/a	30-Mar-05
Ricmore	Aim	Placing	£0.9m / £0.2m	30-Mar-05
Petsome	Aim	Placing	£0.9m / £0.2m	30-Mar-05
Ming Resources	Aim	Placing	£1.0m / £0.9m	30-Mar-05
Libra Retail	Aim	Introduction	TBC / n/a	30-Mar-05
Isis Resources	Aim	Placing	£1.0m / £0.9m	30-Mar-05
India Star Energy	Aim	Placing	£1.4m / £0.9m	30-Mar-05
Central China Goldfields	Aim	Introduction	TBC / n/a	30-Mar-05
Rotala	Aim	Placing	£4.3m / £3.2m	29-Mar-05
Resmex	Aim	Placing	£1.4m / £0.9m	29-Mar-05
Zest	Aim	Placing	£2.2m / £0.6m	24-Mar-05
Plethora Solutions Holdings	Aim	Placing	£30.0m / £10.0m	24-Mar-05
Process Handling	Aim	Placing	£2.0m / £0.9m	23-Mar-05
Poland Investment Fund	Aim	Placing	£1.2m / £0.4m	23-Mar-05
Mecom Group	Aim	Placing	£48.1m / £45.0m	23-Mar-05
IBS Opensystems	Aim	Placing	£56.0m / £56.0m	23-Mar-05
Croatia Ventures	TBA	Placing	TBC / £0.8m	22-Mar-05
Shield Capital	Aim	Placing	£1.3m / £1.0m	21-Mar-05
Enola Resources	Aim	Placing	£1.6m / £0.8m	21-Mar-05
Shed Productions	Aim	Placing	£44.0m / £22.4m	18-Mar-05
Roeford Properties	Aim	Placing	£1.7m / £0.6m	18-Mar-05
Bora Communications	Aim	Placing	£1.4m / £0.7m	18-Mar-05
Harbinger Capital	Aim	Placing	£1.0m / £0.5m	17-Mar-05
Gasol	Aim	Placing	£2.2m / £1.5m	16-Mar-05

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